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RUEHHK/AMCONSUL HONG KONG IMMEDIATE 4516  
RUEHUL/AMEMBASSY SEOUL IMMEDIATE 2456  
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 3023  
RUEHWL/AMEMBASSY WELLINGTON IMMEDIATE 3393  
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STATE FOR EB/IFD/OIA, EB/ESC and EAP/PMBS  
DOE FOR TOM CUTLER  
STATE PASS EXIM, OPIC, AND USTR  
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SUBJECT: China vs. U.S. (and Italy) For TransCo Concession

SENSITIVE BUT UNCLASSIFIED

11. (U) Please see para. 15 for ACTION REQUEST.

12. (U) SUMMARY: Three consortia have pre-qualified to bid for the concession to run the \$2.6 billion Philippine electric grid. The Chinese have teamed up with local investors close to relatives of the President and her political allies. U.S. investors have asked for USG support for the bid they will submit together with influential Chinese-Philippine businessmen. This is shaping up as a major battle between competing Philippine interests, as well as between U.S. and Chinese investors. End Summary.

13. (U) A 25-year concession to operate state-owned National Transmission Corp. (widely known as TransCo), the sole electric transmission utility in the Philippines, goes on the auction block in the coming weeks. With some \$2.6 billion in assets, TransCo is one of the most attractive assets in the ongoing privatization of GRP electric holdings.

14. (U) Not surprisingly, the TransCo concession has attracted the attention of powerful political and economic forces in the Philippines and important investors from abroad. As the Philippine Constitution restricts foreign ownership in the electric sector to no more than 40%, each of the competing consortiums includes both important foreign investors and local players.

The Players

15. (U) The State Grid Corporation of China has joined with Philippine partner Monte Oro Grid Resources, newly created for this competition. Monte Oro is fronted by mining executive Walter Brown, who represents investment banker Diosdado "Buboy" Macapagal Jr., the brother of President Arroyo; Arroyo supporter and the owner (among other interests) of International Container Terminal Services Inc., Ricky Razon; and the son of Speaker of the House Jose de Venecia, Joey De Venecia, a telecom/internet/call center entrepreneur.

16. (U) U.S. Texas Pacific Group (via Newbridge Asia IV L.P., often called TPG Newbridge) holds a 35% share in the principal competitor

of the Monte Oro-Chinese bid. Malaysia's biggest power company, Tenaga Nasional Berhad would operate the grid under this consortium and hold a 5% share. The Philippine partner would be Trinatra Holdings Corporation, another company formed just for this competition. Trinatra brings together Henry Sy, Jr., one of the heirs apparent to Shoemart billionaire Henry Sy; Ramon Ang, Vice Chairman and President of colossal food and beverage corporation San Miguel (probably representing his boss, Eduardo "Danding" Cojuangco), and Joselito "Butch" Campos, who controls Del Monte Pacific Ltd. and other companies.

¶17. (U) Italy's largest power distributor, Terna SPA, has teamed with Citadel Holdings Inc., a vehicle for Ricardo Delgado and his family, which has been an important player in telecoms in the Philippines. The Delgados, however, are generally not expected to be strong competitors.

#### The U.S. Investor's Interests

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¶18. (SBU) Ernest Bower of BrooksBowerAsia (BBA) met with EconCouns on December 19 and again (with Commercial Counselor) on January 11 to discuss the concession. BBA represents Texas Pacific Group and requested USG assistance in ensuring the fairness of the bidding process. Bower said that the final bidding documents are under preparation by the GRP's Power Assets & Liabilities Management Corporation (PSALM). The immediate concern is that the politically well-connected Monte Oro team may attempt to get PSALM to issue documents which would give them an advantage or disqualify their opponents on technical grounds. Bower said the Monte Oro team is putting pressure on the President of PSALM, well regarded Nieves Osorio, via Speaker of the House Jose de Venecia. Bower is concerned that Osorio could be removed from her post before the

MANILA 00000170 002 OF 002

bidding documents are finalized in order to put someone who would favor Monte Oro into her place.

¶19. (U) Bower noted that his clients have approached OPIC about political risk insurance. Such insurance would be necessary to allow them to make a viable bid, he suggested. He also said that investor guarantees which the Asian Development Bank may provide would make it easier for private foreign investors to compete on the same footing with a state firm such as the State Grid Corporation of China. He is in the process of submitting documentation to the Department of Commerce's Advocacy Center in order to formally obtain USG support for the Texas Pacific Group bid.

¶10. (U) Concession authority for TransCo rests finally with the Philippine Congress. Bower suggested that if Texas Pacific Group were to win the bid, it would request U.S. assistance in lobbying the Philippine Congress to approve the deal.

#### Power Privatization in the Philippines

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¶11. (U) Restructuring of the Philippine power industry began with the passage of the Electric Power Industry Reform Act of 2001 which mandated the privatization of the system. Although the law required that 70% of government-owned electric generating capacity be privatized by the end of 2005, that target was not met and only 11% has been privatized to date. Sale of generating assets has been complicated by the fact that the assets up for sale do not have long term supply contracts and would face competition from other as-yet-not-privatized government assets.

¶12. (U) Privatization of TransCo has proven even more difficult. This is the fourth re-bidding. There were interested buyers in every case, but the first two bids failed because the law mandates that the Senate must approve the franchise after the sale and companies were not comfortable making such a large investment only to be thrown immediately into a political process. There was also concern about the potential for independence on the part of the newly established Energy Regulatory Commission which will set transmission prices. With a better established Regulatory Commission (though still lacking complete autonomy from the caprices

of the Supreme Court and still not completely removed from political influence) more firms were interested in the third offer. However, it also fell through when the terms of reference were so vague that every bidding firm felt obliged to write its own specific terms, resulting in incomparable offers.

¶13. (U) The current bidding process began in May 2006. The three current competitors were pre-qualified in November. Although Finance Secretary Margarito Teves has announced a bid deadline of January 22, he conceded that date might be relaxed based on comments by bidders raising a number of legal and commercial concerns. Bower suggested that a delay of at least a couple of weeks is believed likely.

¶14. (U) Post will report on the privatization process on a continuing basis on a dedicated TransCo Privatization page on the Intellipedia. The Intellipedia page can be found at: [www.intelink.sgov/wiki/TransCo\\_Privatization](http://www.intelink.sgov/wiki/TransCo_Privatization). Numerous linking pages provide background on major players in the privatization effort. Clicking the "Watch" link at the top of a page will sign users up for notification when the page is updated.

¶15. (U) Action Request: We request that Washington agencies expedite the review of eligibility for advocacy and of requests for OPIC support for this bid and inform us of results.

KENNEY